

Kentucky Power Company

REQUEST

Were any retirements, classified as sales or reimbursements, excluded to the extent to which the salvage receipt represents recovery of original cost? If yes:

- a. Provide, by account, the annual retirements and the related salvage that has been excluded for the 10 years ending 2004.
- b. Provide the Commission Orders and Decisions approving this practice.
- c. Demonstrate that the retirements were excluded from the life studies.

RESPONSE

No.

WITNESS: James E Henderson

Kentucky Power Company

REQUEST

Explain the Company's procedures for gross salvage and cost of removal.

RESPONSE

The Company follows procedures for gross salvage and cost of removal as set out in Publication Number FERC -0114 by the Federal Energy Regulatory Commission titled "Accounting and Reporting for Public Utilities and Licensees." Set out in the "Electric Plant Instructions" in the publication under item 10, B, (2) are instructions regarding salvage and removal which state, ". . . If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account."

WITNESS: James E Henderson

Kentucky Power Company

REQUEST

Explain how cost of removal relating to replacements is allocated between cost of removal and new additions. Provide copies of actual source documents showing this allocation.

RESPONSE

The Company charges the actual cost of removal relating to replacements to the accumulated provision for depreciation of electric utility plant. Removal cost is not allocated to new additions.

WITNESS: James E Henderson

Kentucky Power Company

REQUEST

Does Kentucky Power agree that, in the case of a replacement, Kentucky Power has control over how much of the cost of the replacement is assigned to the retirement as cost of removal, and how much is capitalized to plant-in-service? Please explain the answer fully.

RESPONSE

No, Kentucky Power does not agree that the Company has control over how much of the cost of a replacement is assigned to cost of removal. Specifically, the FERC Uniform System of Accounts states in the instructions for Account 108, Accumulated Provision for Depreciation:

“At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance.”

WITNESS: James E Henderson

Kentucky Power Company

REQUEST

Please provide all manuals, guidelines, memoranda or other documentation that deals with the Company's policies on the assignment of capital costs and net salvage with regard to the replacement of retired plant. Also, please provide a sample workorder for a replacement project, showing these cost assignments.

RESPONSE

The Company follows the FERC USOA Electric Plant Instruction No. 10, "Additions and Retirements of Electric Plant" in accounting for the replacement of plant retired.

WITNESS James E. Henderson

<u>Company</u>	<u>Work Order</u>	<u>Work Order Description</u>	<u>Transaction Description</u>	<u>GL Account</u>	<u>Utility Account</u>	<u>Amount</u>	<u>Removal Cost</u>	<u>Salvage</u>
Kentucky Power Company	40509399	Replace Two NOX Monitors	Install New Monitors	1010001	31200	31,427.36	0	0
Kentucky Power Company	40509399	Replace Two NOX Monitors	Retire Old Monitors	1010001	31200	-21,741.94	0	0
Kentucky Power Company	40509399	Replace Two NOX Monitors	Remove Old Monitors	1080001	31200	0	1,255.33	0

Kentucky Power Company

REQUEST

Provide narrative explanations of the Company's aging and pricing procedures.

RESPONSE

See the Company's response to Item No. 121.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Identify and explain the Company's expectations with respect to future removal requirements and markets for retired equipment and materials. Please provide the basis for these expectations.

RESPONSE

The Company did not project future price levels for removal costs in the depreciation study.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Provide the retirements cost of removal reflected in the Company's construction budget for the years 2005-2009 inclusive. Provide by account.

RESPONSE

The budgeted retirement cost of removal of 2005 by function is shown below. Please see the Company's response to AG 1st Set Item No. 133 for the years 2006 through 2009.

Description	Account	\$000 Budget 2005
Cost of Removal Net		
Production	310-316	\$ 759
Transmission	350-359	241
Distribution	360-373	1,877
General	389-399	-0-
Intangible	301-303	-0-
Total		\$ 2,877

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Explain how the Company accounts for third party reimbursements and how they are reflected in the depreciation study.

RESPONSE

The Company accounts for third party reimbursements applicable to construction or retirement by crediting the reimbursements to Account 108, Accumulated Provision for Depreciation. The reimbursements are reflected as salvage in the depreciation study.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

If third-party reimbursements were excluded from the net salvage studies, was the related retirement also excluded from the life studies?

RESPONSE

Please see response to AG question No. 130.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Do Mr. Henderson's net salvage recommendations incorporate inflation expected to be incurred in the future? If yes, provide the net present value of all of these ratios.

RESPONSE

The net salvage recommendations are based on the Company's historical experience. No inflation indices were applied to the historical experience.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Provide the Company's capital budget for the next five years. Identify all retirements, replacements, new additions and cost of removal reflected in this budget. Provide by account where available and explain how the cost estimates are derived for these items.

RESPONSE

KPCO CAPITAL BUDGET (\$000) 2006 THROUGH 2010

	<u>Account</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Construction Expenditures						
Production	310-316	65,951	96,612	110,725	302,350	107,991
Transmission	350-359	7,324	11,168	20,875	38,348	21,868
Distribution	360-373	33,146	59,832	60,522	56,636	40,975
General	389-399	2,555	2,471	2,536	2,606	2,710
Intangible	301-303	2,063	2,533	2,513	2,541	2,637
Total		111,039	172,615	197,172	402,481	176,181
Cost of Removal Net						
Production	310-316	3,886	4,663	1,248	4,577	4,577
Transmission	350-359	277	40	41	41	41
Distribution	360-373	1,751	332	339	346	346
General	389-399	-	-	-	-	-
Intangible	301-303	-	-	-	-	-
Total		5,914	5,034	1,628	4,965	4,965
Retirements						
Production	310-316	769	769	769	769	769
Transmission	350-359	422	422	422	422	422
Distribution	360-373	5,891	5,891	5,891	5,891	5,891
General	389-399	345	345	345	345	345
Intangible	301-303	-	-	-	-	-
Total		7,427	7,427	7,427	7,427	7,427

RESPONSE, continued

Operating companies and Service Corporation functional support centers provide project detail to the Corporate Planning and Budgeting department. The Executive Council (EC) reviews the capital forecast and approves or modifies it. The EC then recommends the capital forecast to the Board of Directors of AEP.

WITNESS Errol K. Wagner

Kentucky Power Company

REQUEST

On an account-by-account basis, provide any available information (studies, reports, etc.) on anticipated future net salvage levels and anticipated levels of increased retirement activity that influenced Mr. Henderson's net salvage recommendations.

RESPONSE

The net salvage recommendations were based on the Company's historical experience. Mr. Henderson did not rely on additional studies, reports, etc. to project future net salvage.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Provide the fair value of all cost of removal estimates, including production plant demolition, as defined by SFAS No. 143 and FERC Order No. 631. In other words, assume that you have legal AROs for all accounts for which you are proposing to charge cost of removal to depreciation expense. Provide the workpapers in hard copy and Excel format with all formulae in tact.

RESPONSE

The Company has not performed this calculation.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

If not provided in the workpapers, please provide the retirement rate analysis ranking of best-fit life/curve combinations for each account. If the service life indications resulting from the analyses are not the best-fit life/curves, please explain how they were selected.

RESPONSE

The retirement rate analysis ranking of best-fit curves are indicated by a minus sign preceding the index of variation for the accounts analyzed by the simulation method. An index of variation for the actuarial analyses is embedded in the proprietary software used to fit the Iowa Curves and the software does not provide for that index to be printed.

An explanation of the Iowa-Curve and life selected for each account is contained in the depreciation study workpapers.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

For any accounts where Mr. Henderson did not base his service life/curve selection on the results of his retirement rate analysis, explain why he did not. Also, explain in detail how those service life/curve combinations were selected.

RESPONSE

Please see response to AG request No. 136.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Provide copies of all actuarial and semi-actuarial studies prepared by the Company since the last depreciation study.

RESPONSE

No actuarial or semi-actuarial studies were prepared since the last depreciation study.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Provide the Company's most recent Integrated Resource Plan dealing with plant lives.

RESPONSE

The Company's most recent Integrated Resource Plan was filed November 15, 2002 in Case No. 2002-00377. The Kentucky Attorney General was a party to the proceeding and was provided a copy of the IRP.

WITNESS Errol K. Wagner

Kentucky Power Company

REQUEST

Identify and explain all Company programs which might affect plant lives.

RESPONSE

No specific Company programs affecting plant lives were identified.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Provide all internal life extension studies prepared by the Company. Life extension refers to any program, maintenance or capital, designed to extend lives and/or increase capacity of its existing plant-in-service. Identify the functions to which these studies relate.

RESPONSE

Neither Kentucky Power nor the AEP Service Corp has undertaken any unit life extension studies involving Big Sandy U1, Big Sandy U2 or Rockport. Expected operating life extends to 60 years or more based on the economic operation of the individual units. Individual component repair or replacement projects are considered on an as needed basis.

WITNESS Errol K. Wagner

Kentucky Power Company

REQUEST

Provide the following information for all final retirements for the last 15 years. If requested data is not available for the last 15 years, provide the data for as many years as are available.

- a. Date of retirement
- b. Amount of retirement
- c. Account
- d. Reason for retirement
- e. Whether or not retirement was excluded from historical interim retirement rate studies.

RESPONSE

No final retirements were identified.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Please provide the ARO/ARC calculations for each of Kentucky Power's property accounts assuming that Kentucky Power has legal AROs for all of its plant.

RESPONSE

The Company has not performed the requested calculation.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

If not provided elsewhere, provide the calculation of the current average age, and average age of retirements, for each property group shown in the Study. Please provide all of these calculations in electronic format (Excel) with all formulae intact.

RESPONSE

The current average age and average age of retirement are provided in the study workpapers. The electronic calculations are embedded in the proprietary software.

WITNESS James E. Henderson

Kentucky Power Company

REQUEST

Was the life span methodology utilized in this study utilized in the prior studies? If so, please provide a comparison, by account and location, of the probable retirement year forecasted in the prior studies, with the probable retirement year forecasted in the 2004 Study.

RESPONSE

The life span methodology utilized in this study was used in the prior study. Please refer to the response to AG Request No. 151 regarding the prior depreciation study.

WITNESS James E. Henderson